

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 FEA-01 AGRE-00
CEA-01 CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 EPG-02
AID-05 SS-15 STR-04 ITC-01 TRSE-00 USIA-06 PRS-01
SP-02 OMB-01 OIC-02 AF-10 ARA-10 NEA-10 /140 W
-----124920 091800Z /47

R 091210Z JUL 77

FM USMISSION GENEVA

TO SECSTATE WASHDC 8999

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY HELSINKI

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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USEEC, USOECD

EO 11652: N/A

TAGS: ETRD, GATT

SUBJECT: WP ON EXPORT INFLATION INSURANCE (EII)

REF: (A) STATE 129025, (B) STATE 144599

SUMMARY: PRELIMINARY DISCUSSIONS WITH KEY REPS INDICATE WE
CAN CONCLUDE WP AT NEXT SESSION. QUESTION OF EXCHANGE RATE
GUARANTEE SCHEMES AND SELF-FINANCING ASPECT OF EII REMAIN
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DIFFICULT ISSUES. END SUMMARY.

1. DURING PAST WEEK, WE HAVE MET WITH REPS OF EC FINALND,
SWEDEN, UK, JAPAN, AUSTRIA, SWITZERLAND AND CANADA TO
DISCUSS SUBJECT WORKING PARTY. ALL DESIRE TO COMPLETE
WP AT JULY MEETING. ALTHOUGH NONE OF THEM HAVE NEW
INSTRUCTIONS SINCE LAST MEETING, EACH INDICATED LIKELY

POSITION HE WOULD BE INSTRUCTED TO TAKE AT JULY MEETING OF WP. MOST THOUGHT QUESTION OF EXCHANGE RATE GUARANTEE SCHEMES COULD BE RESOLVED ALTHOUGH A LOT DEPENDS ON HOW MUCH THE EC PRESSES THE LINKAGE WITH EII SCHEMES. WITH REGARD TO GATT LEGALITY OF SELF-FINANCING EII SCHEMES, SEVERAL DELS LIKELY POSITIONS REMAIN UNCLEAR.

2. ON EXCHANGE GUARANTEE SCHEMES, EC (ABBOTT) INDICATED THAT IT HOPE NOT TO ENGAGE IN EXTENDED DEBATE. IF ESSENCE OF HIS STATEMENT AT LAST MEETING LINKING EII AND EXCHANGE RATE GUARANTEE SCHEMES WERE INCLUDED IN BODY OF REPORT, ABBOTT BELIEVES HE CAN CONVINCE MEMBER STATES THAT EC HAS ACHIEVED ITS OBJECT OF A BALANCED REPORT. EC COULD ACCEPT SPLIT WP CONSLUSIONS THAT FOCUSED ON EII BUT WOULD WANT STATEMENT ALONG LINES OF PARA 3 REF THAT EXCHANGE RATE GUARANTEE SCHEMES HAVE SIMILARITIES TO EII AND SHOULD BE LOOKED AT BY THE GATT. JAPAN WILL RESIST ANY LANGUAGE THAT RECOMMENDS THAT EXCHANGE GUARANTEE SCHEMES BE CONSIDERED BY THE GATT. SWISS, AUSTRIANS AND SWEDISH DELS INDICATED THAT THEY COULD ACCEPT GENERAL OUTLINE OF EC APPROACH BUT WOULD EXPRESS VIEW THAT EXCHANGE GUARANTEE SCHEMES OUTSIDE SCOPE OF WP TERMS OF REFERENCE. SWISS HAD PREVIOUSLY INDICATED THEY WOULD DISCUSS SWISS EXCHANGE GUARANTEE SCHEME BILATERALLY WITH EC BUT HAVE NOT DONE SO, AND SWEDISH DEL SAID HE HAD AUTHORITY AT LAST WP MEETING TO DISCUSS SWEDISH LIMITED OFFICIAL USE

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EXCHANGE GUARANTEES IF CONSENSUS DEVELOPED TO DO SO. BOTH SWISS AND AUSTRIAN DELS WILL REFUSE TO DISCUSS THEIR SCHEMES IN WP. FINNS FO NOT INTEND TO PRESS FOR FURTHER DISCUSSIONS OF EXCHANGE GUARANTEE SCHEMES AND WILL LIKELY FOLLOW EC LEAD ON INCLUSION OF THESE SCHEMES IN WP REPORT.

3. WITH REGARD TO LEGALITY OF SELF-FINANCING SCHEMES, UK INTENDS TO PUSH ARGUMENT THAT EII ARE SIMILAR IN NATURE TO EXPORT CREDIT GUARANTEE PROGRAMS CONTAINED IN PARA F OF 1960 ILLUSTRATIVE LIST AND THAT THEY THEREFORE SHOULD BE CONSIDERED CONSISTENT WITH ART XVI IF THERE IS AN EXPECTATION THAT THEY WILL BE SELF-FINANCING OVER A LONG PERIOD. FINLAND HAS MADE THIS POINT IN THE PAST AND WILL SUPPORT THE UK. THE JAPANESE AND SWEDISH DELS AGREE WITH OUT FORMULATION AND WILL STATE THAT THERE IS NO REASON TO BELIEVE THAT THOSE SCHEMES CAN COVER COSTS, PARTICULARLY IN PERIODS OF HIGH INFLATION, SO THAT, ON BALANCE THEY CAN NOT HOPE TO BE SELF-FINANCING. SEVERAL OF THE OTHER DELEGATIONS DO NOT HAVE CLEAR INSTRUCTIONS ON THIS POINT. THE CANADIANS INSTRUCTIONS AT PAST MEETINGS HAVE STRESSED THE SUBSIDY NATURE OF DEFICIT SCHEMES BUT HAVE NOT ALLOWED THE CANADIAN DEL TO ASSERT THAT A

SELF-FINANCING SCHEME IS A VIOLATION OF ART XVI.

4. THOSE MEMBERS OF THE WP MAINTAINING EII SCHEMES SAY THERE IS NO POSSIBILITY THAT THEY COULD AGREE IN THE WP REPORT TO PHASE OUT SUCH SCHEMES. BOTH THE FINNISH AND UK DELS THOUGHT THAT THEIR SCHEMES ARE LIKELY TO STAY AROUND FOR SOME TIME, GIVEN LIKELIHOOD THAT THEY WOULD BE SELF-FINANCING.

5. GATT SECRETARIAT HOPES THAT MEETING WILL NEED ONLY HALD DAY JULY 25 WITH WP REPORT LIKELY TO BE TAKEN UP MORNING OF JULY 28.

6. COMMENT: WE WILL BE MEETING AGAIN WITH EC AND LIMITED OFFICIAL USE

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CHAIRMAN WEEK OF JULY 11 TO DISCUSS WP AFTER EC HAS HAD OPPORTUNITY TO CAUCUS WITH MEMBER STATES. ALTHOUGH MUCH DEPENDS ON HOW MUCH PRESSURE UK AND FRANCE PUT ON EC SPOKESMAN, OUR PRELIMINARY ASSESSMENT IS THAT WE CAN CONCLUDE WP ALONG LINES OUTLINED IN REF B.SORENSEN

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